



City of Saint John
Finance Committee - Open Session
AGENDA

Wednesday, March 13, 2019

4:50 pm

8th Floor Common Council Chamber (Ludlow Room), City Hall

	Pages
1. Call to Order	
1.1 Approval of Minutes - January 30, 2019	1 - 3
1.2 Debt Management Policy	4 - 32
1.3 Wage Escalation Policy	33 - 51
1.4 Public Engagement	52 - 61



The City of Saint John

MINUTES – OPEN SESSION FINANCE COMMITTEE MEETING
JANUARY 30, 2019 AT 5:30 PM
8th FLOOR COMMON COUNCIL CHAMBER (LUDLOW ROOM), CITY HALL

Present: Mayor D. Darling
Councillor D. Merrithew
Councillor G. Sullivan
Councillor S. Casey
Councillor D. Reardon
Councillor G. Norton

Also

Present: City Manager J. Collin
Deputy City Manager N. Jacobsen
City Solicitor J. Nugent
Commissioner of Finance and Treasurer K. Fudge
Commissioner Growth & Community Development J. Hamilton
Commissioner Saint John Water B. McGovern
Comptroller Finance C. Graham
Senior Manager Financial Planning H. Nguyen
Director Corporate Performance S. Rackley-Roach
Assistant Comptroller Finance and Administrative Services C. Lavigne
Deputy Commissioner Administrative Services I. Fogan
Commissioner Transportation & Environment M. Hugenholtz
Web Specialist T. McGraw
Senior Financial Analyst J. Forgie
Fire Chief K. Clifford
Corporate Performance N. Moar
Administrative Assistant K. Tibbits

1. Meeting Called To Order

Moved by Councillor Reardon, seconded by Councillor Sullivan:
RESOLVED that the Finance Committee meeting be called to order.

MOTION CARRIED.

Councillor Merrithew called the Finance Committee open session meeting to order.

1.1 Approval of Minutes – December 6, 2018

Moved by Councillor Reardon, seconded by Councillor Sullivan:
RESOLVED that the minutes of December 6, 2018, be approved.

MOTION CARRIED.

1.2 Corporate and Community GHG and Energy Action Plan

Referring to the submitted report, Mr. Yammine provided an overview of the Corporate and Community GHG and Energy action plan. The plan will identify current greenhouse emissions, identify targets and identify a strategy or action plan to meet those targets, with a goal of reducing energy costs and emissions. Mr. Yammine discussed the benefits to the City and the community at large. Mr. Yammine stressed the importance of establishing a government structure and having the support of Common Council in order to move the action plan forward. The plan would concentrate on specific projects, with a one project/one strategy approach.

Moved by Mayor Darling, seconded by Councillor Sullivan:

RESOLVED that the Finance Committee recommend that Common Council approve the Corporate and Community GHG and Energy Plan; and further that the City Manager explore options for a governance structure to move the plan forward.

MOTION CARRIED.

1.3 Disaster Mitigation Adaptation Funding

Mr. Lavigne commented on funding opportunities under the umbrella of Disaster Mitigation Adaptation funding. The City experienced historical flooding in 2018 which caused significant damage to municipal infrastructure. The Disaster Mitigation Adaptation Fund has been developed to support large-scale infrastructure projects that have a minimum cost requirement of \$20M, and provides 40% funding of cost-sharing with municipalities. It is a bundle of three projects under one large project for flooding. There has been no commitment made by the City, but staff did not want to lose the opportunity to submit an application. The projects include:

- Seawall refurbishment
- Several Pumping Stations
- Electrical substations with Saint John Energy

Mr. Fudge noted that these projects can be funded over multiple years, adding that some projects would have to be completed regardless as part of the City's long-term capital investment plan.

(Mayor Darling withdrew from the meeting)

Moved by Councillor Reardon, seconded by Councillor Norton:

RESOLVED that the submitted report entitled, "Disaster Mitigation Adaptation Funding", be received for information.

MOTION CARRIED.

1.4 Long-Term Financial Plan Targets and Principles

(Mayor Darling re-entered the meeting)

Referring to the submitted report, Mr. Fudge commented on the principles and targets that will be embedded in the long-term financial plan. The overarching principle of the plan is sustainability. If the plan and initiatives such as the Wage Escalation Policy are successful, the structural imbalance in the budget can be addressed over the next 10 years.

Mr. Collin noted that a tax rate reduction is a priority of Council and there needs to be a focus in terms of reducing the tax burden. He suggested that the wording in the Long-Term Financial Plan be clear in that tax reduction is part of the overall plan as opposed to a blanket singular statement regarding tax reductions. There may be value in reinforcing success, ie: if the growth agenda is successful, it may be beneficial to accelerate that momentum.

Moved by Councillor Sullivan, seconded by Councillor Reardon:

RESOLVED that the Finance Committee direct staff to incorporate the Financial Principles and Targets as presented in the Draft 10 Year Long-Term Financial Plan.

MOTION CARRIED.

Adjournment

Moved by Councillor Sullivan, seconded by Councillor Reardon:

RESOLVED that the open session meeting of the Finance Committee be adjourned.

MOTION CARRIED.

The Finance Committee open session meeting held on January 30, 2019 was adjourned at 7:15 p.m.

FINANCE COMMITTEE REPORT

M&C No.	# found on Sharepoint.
Report Date	March 13, 2019
Meeting Date	March 13, 2019
Service Area	Finance and Administrative Services

His Worship Mayor Don Darling and Members of Common Council

SUBJECT: Debt Management Policy FAS-006

OPEN OR CLOSED SESSION

This matter is to be discussed in open session of Finance Committee.

AUTHORIZATION

Primary Author	Commissioner/Dept. Head	City Manager
<i>Kevin Fudge</i>	<i>Kevin Fudge</i>	<i>John Collin</i>

RECOMMENDATION

Be it resolved that:

1. Finance Committee recommends that Common Council approve the Draft City of Saint John Debt Management Policy FAS-006;

EXECUTIVE SUMMARY

It is recommended that Common Council approve the Debt Management Policy for the City of Saint John. The Policy applies to the General Fund. Debt Management Policies are considered a best practice financial policy and instrumental to creating a fiscally responsible City and a key instrument in the development of a robust Long Term Financial Plan.

PREVIOUS RESOLUTION

N/A

REPORT

The City's ability to finance infrastructure needs is affected by its access to funding, its debt capacity and debt service charges. Debt affects a City's financial sustainability based on the level of debt it must service, the amount of principal and interest payments on the debt in conjunction with the City's level of affordability, both current and future. The City must manage debt in a way that

aligns with ensuring the long-term financial flexibility and sustainability for the City.

The main objective of the debt management policy is to ensure the City's financing needs and its payment obligations are met at the lowest possible cost over the long term while being affordable for taxpayers.

The Debt Management Policy establishes objectives, guidelines, targets and appropriate controls for the use and issuance of debt for the City. The Policy is to be used in an integrated manner with the other approved Financial Policies of the City in order to integrate debt management with the long term financial goals of the City.

The Debt Management Policy is considered best practice for providing guidelines to Common Council and staff of the broader implications of issuing debt. The objective of the Debt Management Policy is to:

1. Ensure the City obtains long term debt only when necessary, balancing financing needs and taxpayer affordability;
2. Ensure the City manages its debt such that future financial flexibility is maintained;
3. Ensure the City strategically obtains debt based on sound long term financial planning and targets.

Financial policies provide the “rules” that shape financial decisions. When policies are effective they can enhance the financial health of governments. By contrast, weak policies can create fiscal instability. The Debt Management Policy includes fundamental ***conditions for the use of debt*** that will protect the City's financial health:

1. The Debt Management Policy is established to ensure that all debt is issued both prudently and cost effectively according to the Long Term Financial Plan;
2. The City will issue long term debt solely for the purpose of financing the projects approved in the Capital Budget and the Capital Investment Plan (CIP);
3. Long term debt shall not be used to fund operating or maintenance costs or be used as a tool to balance the operating budget;
4. The City shall promote a balanced approach between maintaining an affordable debt level, maintaining infrastructure and accommodating growth;
5. Debt will be structured to fairly distribute the costs over time, taking into consideration inter-generational equity.

DEBT LIMITS AND DEBT TARGETS FOR 2030

The Debt Management Policy not only includes Debt Limits prescribed by Provincial Legislation, but it also incorporates additional debt limits and debt targets to improve and protect the City's financial health. Debt Management must be strategically balanced with the need to address the City's Infrastructure Deficit. The City shall only take on additional debt when existing debt is within the following parameters:

Local Governance Act Legislative Limits

- A local government shall not, in any one year, borrow for its current operations any money in excess of the sum represented by 4% of the budget of that local government for that year or \$15K, whichever is greater;
- A local government shall not, in any one year, borrow for capital expenditures any money in excess of the sum represented by 2% of the assessed value of real property in that local government;
- The total amount of money borrowed by a local government for capital expenditures shall not exceed 6% of the assessed value of real property in the local government.

City General Fund Debt Management Limits and Targets

- General Fund Debt per Capita shall not exceed \$1600;
- The General Fund Debt Service Ratio shall not exceed 12%;
- The City's Debt as a percentage of Operating Budget shall not exceed 70%;
- The City's Target Debt per Capita shall be \$1175 by the year 2030;
- The City's Target Debt Service Ratio shall be 9% by the year 2030;
- The City's Target Debt as a percentage of Operating Budget is 50% by 2030;
- Long Term Debt Term shall be in accordance with the Long Term Financial Plan.

STRATEGIC REDUCTION OF THE CITY'S HEAVY RELIANCE ON DEBT

The Debt Management Policy supports reducing the City's heavy reliance on long term debt to fund Capital Expenditures. The Policy will allow the City Treasurer to utilize reserve funds as a source of funds for the internal financing of capital projects (rather than new debt) as approved by Council in the Reserve Policy. The Policy recognizes effective cash management can be a strong tool in reducing long term debt.

In addition, the Debt Management Policy prescribes that the City will seek to gradually increase pay-as-you-go as an option for financing capital over time. The best use of Pay as you Go financing is as follows:

- To Fund Asset Renewal Projects;
- To Fund Assets with a Useful Life of less than 10 Years;
- Situations where additional debt could adversely impact the City's Financial Health;
- Situations where market conditions favour the use of cash rather than debt (for example, escalating interest rates)

CONCLUSION

The Debt Management Policy is the 6th Financial Policy recommended by the Finance Committee. The Suite of Financial Policies will serve as pillars to improving the City's long term fiscal health. The strategic area of debt in the City's Financial Plan has an overarching goal of managing existing and future debt levels to minimize the impact of debt servicing costs on taxpayers and to create a balance between the use of debt and a pay-as-you-go approach. The Policy incorporates debt limits to ensure that debt obligations will not threaten the long-term financial stability of the City and place undue financial burden on taxpayers.

SERVICE AND FINANCIAL OUTCOMES

This report and recommendation are in alignment with best practices and will support future strong fiscal management.

[Click here to enter text.](#)

ATTACHMENTS: FAS 006 Debt Management Policy



SAINT JOHN

Title: Debt Management

Subject: General Fund Debt Management Policy	Category: Finance and Administrative Services
Policy No.: FAS-006	M&C Report No.:
Effective Date:	Next Review Date:
Area(s) this policy applies to: Cross Corporate	Office Responsible for review of this Policy: Finance and Administrative Services
Related Instruments: FAS-001 Asset Management Policy FAS-002 Investment Management Policy FAS-003 Reserves Policy FAS-004 Operating Budget Policy FAS-005 Capital Budget Policy	Policy Sponsors: Commissioner of Finance and Administrative Services
	Document Pages: This document consists of 7 pages.

Revision History:

Common Clerk's Annotation for Official Record

Date of Passage of Current Framework: _____

I certify that this Policy was adopted by Common Council as indicated above.

Common Clerk

Date

Date Created:

Common Council Approval Date:

Contact:

Finance and Administrative Services



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1. POLICY STATEMENT

- 1.1. The Debt Management Policy does not apply to Saint John Water;
- 1.2. The Debt Management Policy is established to ensure that all debt is issued prudently and cost effectively in accordance with the Long Term Financial Plan;
- 1.3. The Debt Management policy objectives are as follows:
 - The City obtains debt financing only when necessary;
 - The City manages debt such that future financial flexibility is maintained;
 - The City strategically issues debt based on sound financial planning.
- 1.4. The Capital Investment Plan (CIP) is essential to intelligent planning of debt issuance by prioritizing potential capital investment and potential sources of financing.
- 1.5. All City debt issuance and management procedures will comply with the following legislation where applicable:
 - Province of New Brunswick *Local Governance Act*
 - Province of New Brunswick *Municipal Capital Borrowing Act*
 - Province of New Brunswick *Municipal Debentures Act*
 - Province of New Brunswick *Control of Municipalities Act*
 - Province of New Brunswick *Financial Corporation Act*

2. DEFINITIONS

Sustainability – means meeting the needs of the present without compromising the ability of future generations to meet their own needs.

Long Term Debt – means financing with a term over 10-30 years with municipal bonds through the Municipal Finance Corporation or capital leasing as defined by the Public Sector Accounting Standards.

Inter-Generational Equity – means distributing the costs associated with capital investments across the generations which will be enjoying the benefits of the capital assets built today.

Debt Term – the period of time during which debt payments are made. At the end of the debt term, the loan is paid in full.

Internal Financing – means financing for capital purchases from reserve funds as permitted in FAS-003 Reserves Policy.

Pay-As-You Go Financing – means the use of operating funds for capital purchases as opposed to using debt or reserves.

3. ACCEPTABLE CONDITIONS FOR USE OF DEBT

- 3.1. The City will issue long-term debt solely for the purpose of financing the projects approved in the Capital Budget and the Capital Investment Plan (CIP);
- 3.2. Long term debt shall not be used to fund operating or maintenance costs or used as a tool to balance the operating budget;
- 3.3. The Long Term Debt amortization period shall not exceed the life of the asset it is financing;
- 3.4. The City shall promote a balanced approach between maintaining an affordable debt level, maintaining infrastructure and accommodating growth by:
 - Utilizing this Policy in conjunction with the Asset Management Plan, FAS-005 Capital Budget Policy, FAS-004 Operating Budget Policy and FAS-003 Reserves Policy.
 - Integrating debt issuance with the Capital Budgeting process to determine the necessity, priority, and viability of the capital project.
 - Considering the Long Term Financial Plan, and analyzing the tolerance or capacity to absorb and manage new debt given future priorities.
- 3.5. Debt will be structured to fairly distribute the costs over time, taking into consideration inter-generational equity.
- 3.6. The City may also issue debt on behalf of an Agency, Board or Commissions (ABC) under its control pursuant to Generally Accepted Accounting Principles to further the public purposes of the City. The City shall take appropriate steps to confirm the financial feasibility of the project, the financial solvency of the ABC, and that the issuance of such debt is consistent with the policies set forth herein;
- 3.7. This Policy does not apply for the use of Short Term debt instruments.

4. DEBT LIMITS AND DEBT CAPACITY

4.1. The New Brunswick Local Governance Act stipulates that:

- A local government shall not, in any one year, borrow for its current operations any money in excess of the sum represented by 4% of the budget of that local government for that year or \$15K, whichever is greater.
- A local government shall not, in any one year, borrow for capital expenditures any money in excess of the sum represented by 2% of the assessed value of real property in that local government.
- The total amount of money borrowed by a local government for capital expenditures shall not exceed 6% of the assessed value of real property in the local government.

4.2. The City's capacity to issue debt is directly related to Taxpayer's ability to service the payments required on the debt. Three key performance indicators will be benchmarked and measured and the following debt limits shall be applicable:

- **Debt per Capita:** This measurement can provide elected officials with a trend of overall debt outstanding by measuring how much debt the City has per citizen. **General Fund Debt per Capita shall not exceed \$1600;**
- **Debt Service Ratio:** This measurement allows elected officials to be aware of the amount of the current year's annual operating budget which is devoted to servicing debt. **The General Fund Debt Service Ratio shall not exceed 12%;**
- **Total Debt Outstanding as a Percentage of Operating Budget:** This measurement identifies the percentage of annual operating revenues that would be required to extinguish the City's outstanding debt. **The General Fund Total Debt Outstanding as a Percentage of Operating Budget shall not exceed 70%;**

4.3. Additional debt is only permissible when existing debt is within these limits, the limits will be reviewed and updated on an annual basis;

4.4. The City's General Fund target Debt Per Capita is \$1175 by 2030, the City's Debt Service Ratio Target is 9% by the year 2030 and the City's General Fund Target Debt Outstanding as a Percentage of Operating Budget is 50% by 2030.

4.5. Long Term Debt Term shall be in accordance with the Debt Management Plan.

5. DEBT ISSUANCE

- 5.1. A resolution of Council is required for all new debt issues.
- 5.2. The debt issuance process generally follows the steps below:
- Notice of motion: Council gives notice of intent to borrow after 30 days from the day of Council resolution;
 - After expiration of 30 days, Council authorizes staff to issue and sell to the New Brunswick Municipal Finance Corporation debentures at such terms and conditions recommended by the Corporation;
 - Application form filled out and submitted to the New Brunswick Municipal Finance Corporation;
 - New Brunswick Municipal Finance Corporation advises the City of the actual bond issue; and
 - Staff reports back to Council regarding terms of the issue, coupon rate, price, average yield and settlement date.
- 5.3. Debt is structured to fairly distribute the costs over time, taking into consideration intergenerational equity;

6. INTERNAL FINANCING

- 6.1. The City may use reserves as a source of funds for the internal financing of capital projects as approved by Council. Any borrowing from reserve funds shall comply with Policy FAS-003 Reserves Policy.

7. PAY-AS-YOU-GO FINANCING

- 7.1. The City will seek to gradually increase pay-as-you-go as an option for financing capital over time. Factors which favor pay-go financing include:
- Asset Renewal Projects;
 - Assets with a useful life that is less than 10 years – for example, IT equipment and road maintenance;
 - Situations where additional debt could adversely impact the City's financial health;
 - Situations where market conditions favour the use of cash rather than debt (for example, escalating interest rates)

8. REPORTING

- 8.1. The total debt outstanding, and total annual debt service payments will be reported in the annual consolidated financial Statements;
- 8.2. Key performance indicators for debt will be measured and tracked in the City's Annual Financial Health Report Card;
- 8.3. Long-term debt will be forecasted over the long term in a Debt Management Plan based on the Capital Investment Plan as part of the City's Long-Term Financial Plan.

9. ROLES AND RESPONSIBILITIES

9.1 Council shall:

- 9.1.1 Approve the Debt Management Policy;
- 9.1.2 Approve new debt issues; and
- 9.1.3 Approve budgets sufficient to provide for the timely payment of principal and interest on all debt.

9.2 Finance Committee shall:

- 9.2.1 Review borrowing requirements for alignment with the Long Term Financial Plan; and
- 9.2.2 Recommend to Council the approval of new debt issues.

9.3 The Finance Commissioner shall:

- 9.3.1 Review the policy annually in consideration to meeting the City's debt management goals and submit required changes to the Finance Committee for recommendation to Common Council consideration and approval.
- 9.3.2 Assume primary responsibility for the debt management process;
- 9.3.3 Determine the City's available debt capacity and alignment with Long Term Financial Plan;
- 9.3.4 Provide for the issuance of debt at appropriate intervals and in reasonable amounts as required to fund approved capital expenditures;
- 9.3.5 Submit to Finance Committee and Council, all recommendations to issue debt; and
- 9.3.6 Ensure compliance with the principles and mandatory requirements contained in this policy.



Debt Management Policy

City of Saint John

March 13th, 2019



Financial Targets and Principles

TARGETS

- Reduce Debt Balance by 25% over 10 Years or 2.5% per Year
- Increase contributions to capital reserves by 10% per year

Debt Management Policy

Work
in
progress

PRINCIPLES

2. Flexibility

- *Active Debt Management to reduce Debt Level.*

3. Vulnerability

- *Adequate reserves to minimize financial risks to tax payers and address Infrastructure Deficit*



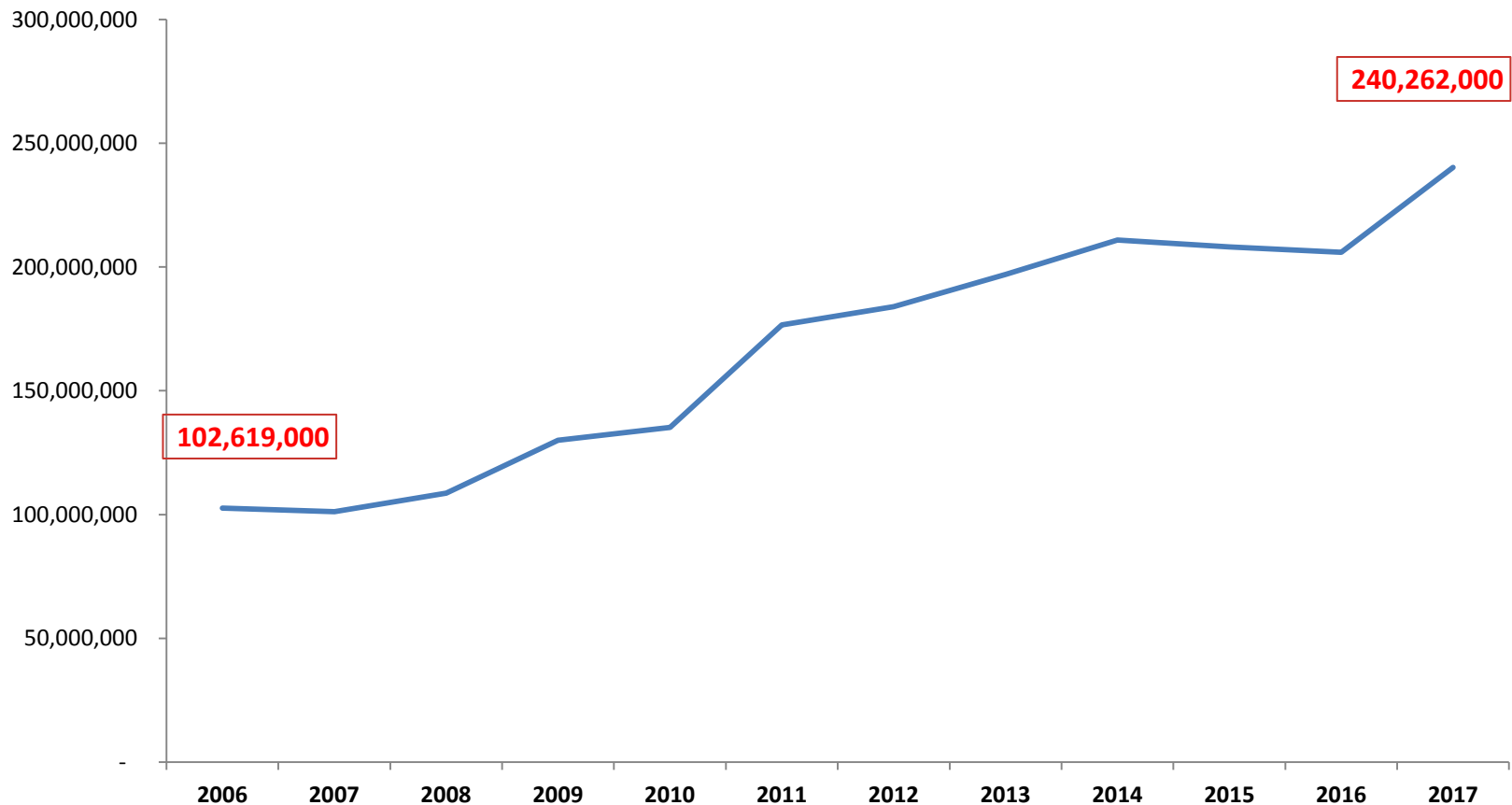
Capital Budget Policy



Operating & Capital Reserves Policy

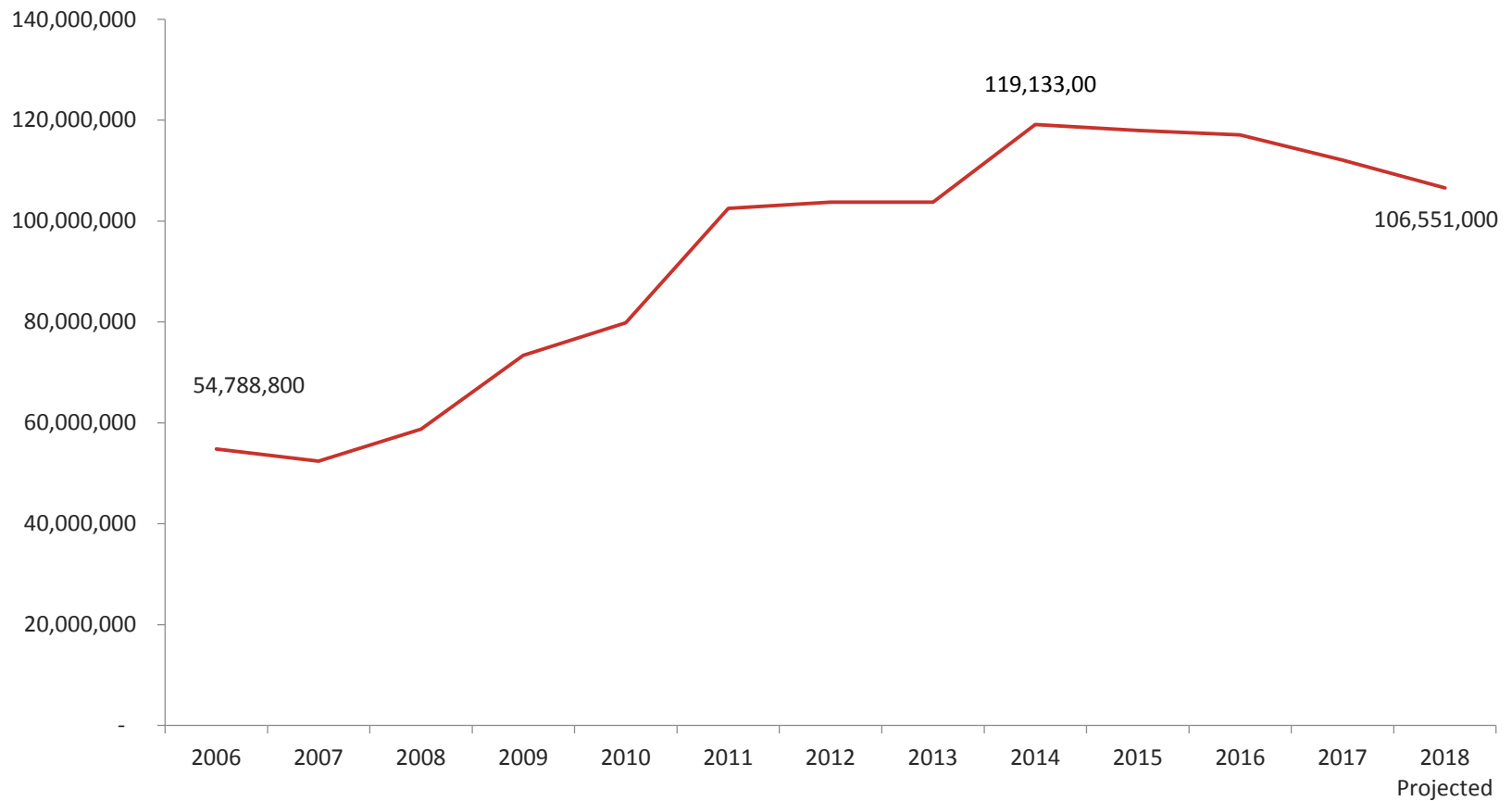
City of Saint John Total Debt

CITY OF SAINT JOHN TOTAL DEBT



General Fund Debt

GENERAL FUND DEBENTURE BALANCE



Reasons for Debt Management Policy

1. Policy establishes criteria for the issuance of debt obligations so that acceptable levels of debt are maintained;
2. Transmits a message to the public and those wishing to invest in Saint John that the City is committed to sound financial management;
3. Best Practice – the Government Finance Officer Association and Bond Rating Agencies strongly encourage the development of a formal debt policy;

Saint John Water

- Saint John Water will require its own separate Debt Management Policy for the following reasons:
 - General Fund is subject to Legislative Debt Limits while Saint John Water is not;
 - Saint John Water has its own unique financial challenges (Rates vs Property Tax, Unique Infrastructure Challenges);
 - Saint John Water is Infrastructure Intense – majority of costs are infrastructure related versus the diverse services offered within the General Fund;

Purpose of Debt Management Policy

1. Debt is issued prudently and cost effectively in accordance with the Long Term Financial Plan based on sound financial planning;
2. Debt financing is obtained only when necessary;
3. Debt is managed such that the City's future financial flexibility is maintained;
4. All City debt issuance and management procedures will comply with the applicable provincial legislation;
5. The Capital Investment Plan (CIP) is essential to intelligent planning of debt issuance by prioritizing potential capital investment and potential sources of financing.
6. Debt is structured to fairly distribute the costs over time, taking into consideration intergenerational equity (matching the cost of debt to those who benefit from the use of the capital);

Acceptable Conditions for Use of Debt

1. The City will issue long-term debt solely for the purpose of financing the projects approved in the Capital Budget and the Capital Investment Plan (CIP);
2. Long term debt shall not be used to fund operating or maintenance costs or used as a tool to balance the operating budget;
3. The Long Term Debt amortization period shall not exceed the life of the asset it is financing;
4. The City shall promote a balanced approach between maintaining an affordable debt level, maintaining infrastructure and accommodating growth;
5. The City may also issue debt on behalf of an Agency, Board or Commissions (ABC) under its control pursuant to Generally Accepted Accounting Principles to further the public purposes of the City.

Debt Issuance

- A resolution of Council is required for all new debt issues.
- The debt issuance process generally follows the steps below:
 1. Notice of motion: Council gives notice of intent to borrow after 30 days from the day of Council resolution;
 2. After expiration of 30 days, Council authorizes staff to issue and sell to the New Brunswick Municipal Finance Corporation debentures at such terms and conditions recommended by the Corporation;
 - Application form filled out and submitted to the New Brunswick Municipal Finance Corporation;
 - New Brunswick Municipal Finance Corporation advises the City of the actual bond issue; and
 3. Staff reports back to Council regarding terms of the issue, coupon rate, price, average yield and settlement date.

Debt Limits and Debt Capacity

Legislative Limits:

- A local government shall not, in any one year, borrow for its current operations any money in excess of the sum represented by 4% of the budget of that local government for that year; **(2019: \$6.4M)**
- A local government shall not, in any one year, borrow for capital expenditures any money in excess of the sum represented by 2% of the assessed value of real property in that local government; **(2019: \$138M)**
- The total amount of money borrowed by a local government for capital expenditures shall not exceed 6% of the assessed value of real property in the local government. **(2019: \$414M)**

Debt Limits and Debt Capacity

Policy Limits

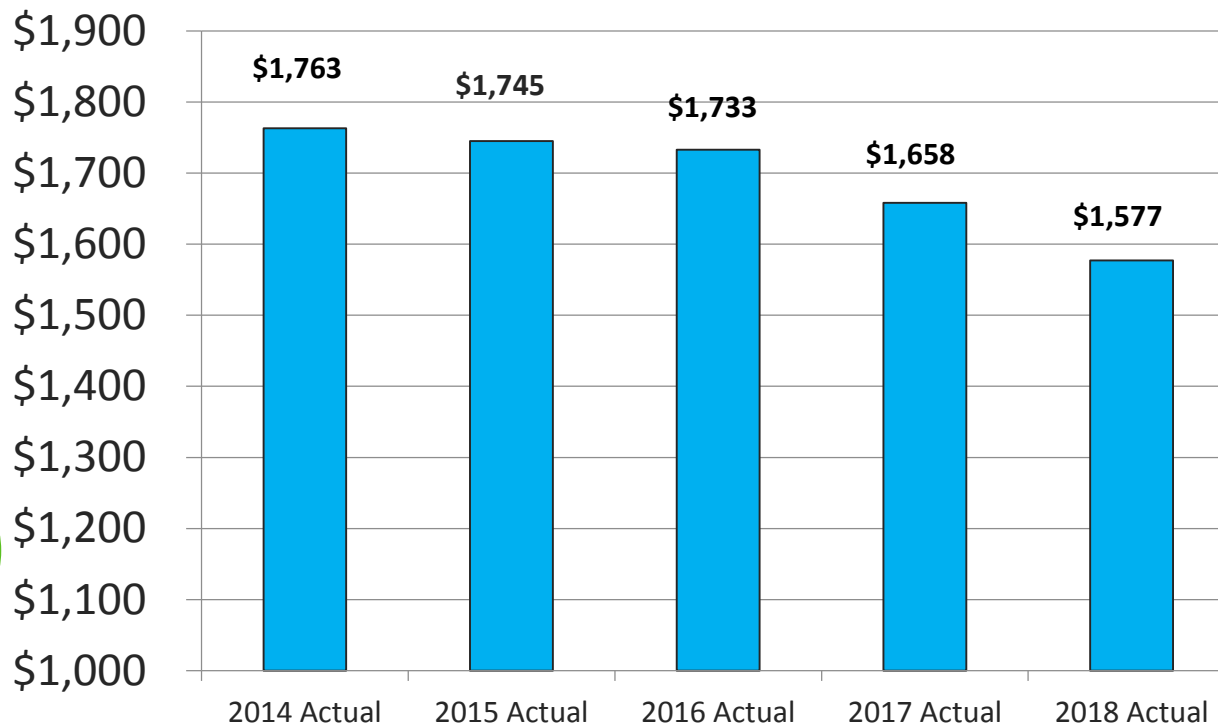
The City's capacity to issue debt is directly related to Taxpayer's ability to service the payments required on the debt. Three key performance indicators will be benchmarked and measured and the following debt limits shall be applicable:

1. **Debt per Capita:** This measurement can provide elected officials with a trend of overall debt outstanding by measuring how much debt the City has per citizen. **General Fund Debt per Capita shall not exceed \$1600;**
2. **Debt Service Ratio:** This measurement allows elected officials to be aware of the amount of the current year's annual operating budget which is devoted to servicing debt. **The General Fund Debt Service Ratio shall not exceed 12%;**
3. **Total Debt Outstanding as a Percentage of Operating Budget:** This measurement identifies the percentage of annual operating revenues that would be required to extinguish the City's General Fund Debt. **The General Fund Debt Outstanding as a Percentage of Operating Budget shall not exceed 70%;**
4. **Additional debt is only permissible when existing debt is within this parameter.**

General Fund Debt per Capita

Metric: Outstanding General Fund Debt Balance at Year End per Capita

Debt Per Capita



Trend

↑ Positive Trend – decrease in debt per capita

Policy Cap

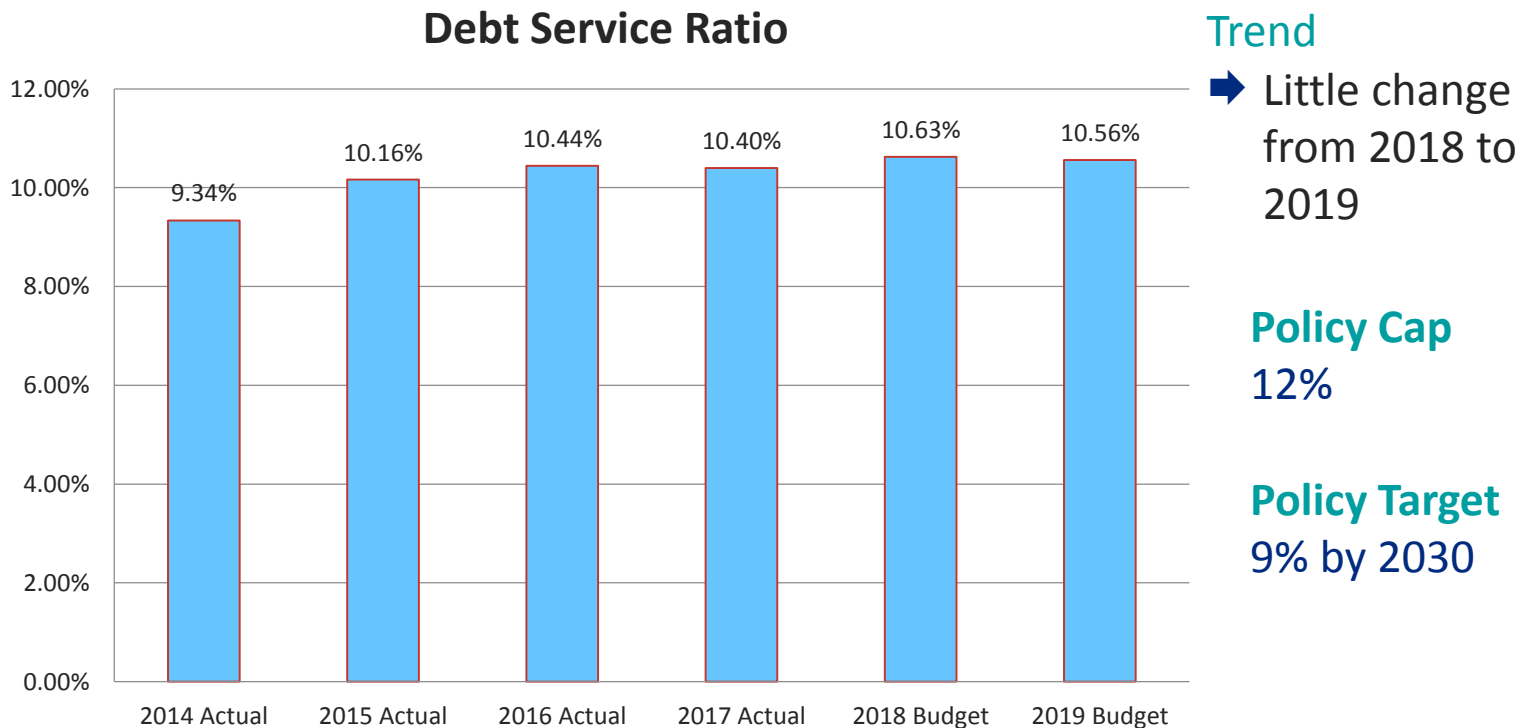
\$1,600

Policy Target:

\$1,175 by 2030

General Fund Debt Service Ratio

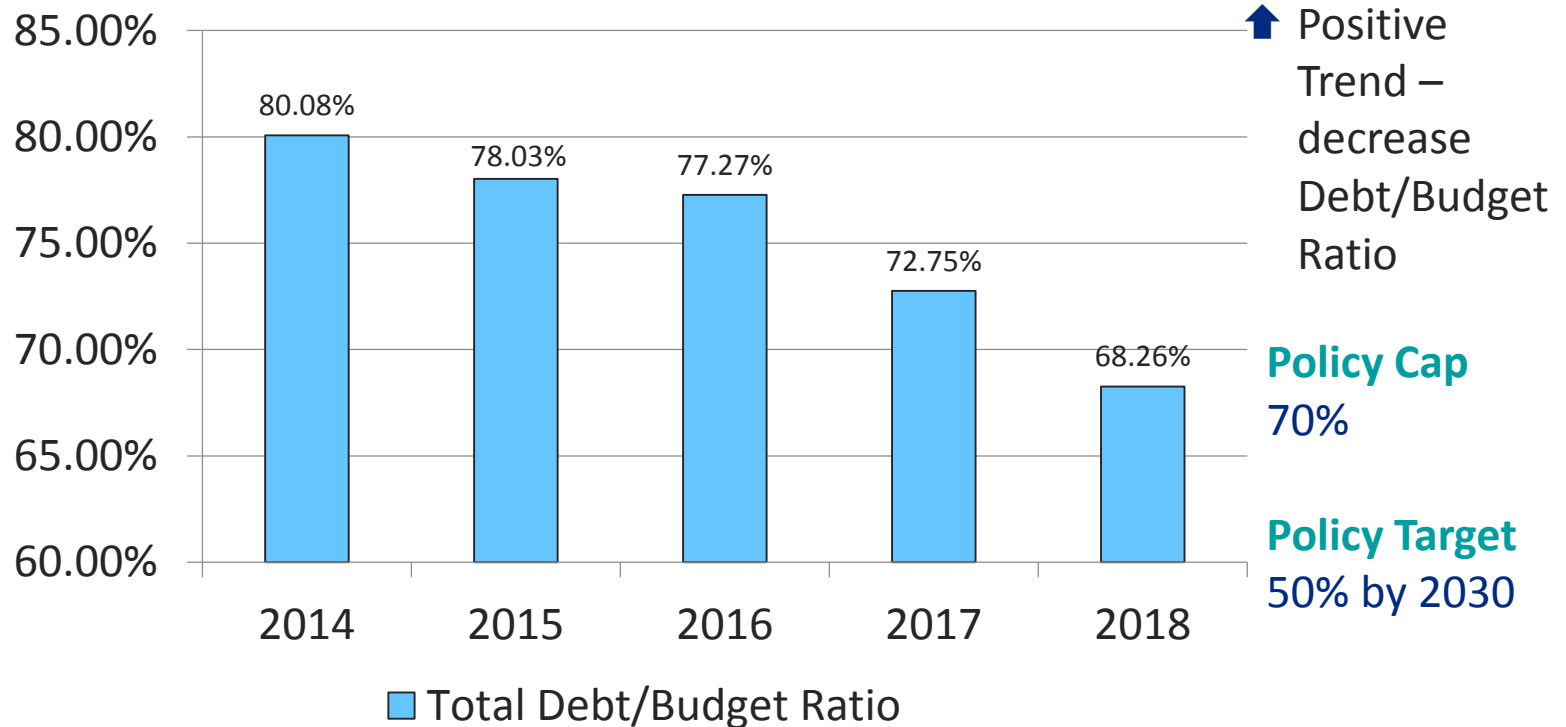
Metric: Percentage of the Operating Budget that funds Debt



Debt/Budget Ratio

Metric: Percentage of Annual Budget Required to Extinguish the City's outstanding debt

Total Debt/Budget Ratio



Strategic Debt Management – Internal Financing

- *The City may use reserves as a source of funds for the internal financing of capital projects as approved by Council. Any borrowing from reserve funds shall comply with Policy FAS-003 Reserves Policy.*
- The Debt Management Policy provides policy that will support reducing the City's heavy reliance on long term debt to fund Capital Expenditures. The Policy will allow the City Treasurer to utilize reserve funds as a source of funds for the internal financing of capital projects (rather than new debt) as approved by Council in the Reserve Policy. The Policy recognizes effective cash management can be a strong tool in reducing long term debt.

Strategic Debt Management - Pay as You Go Financing

- Means using current tax dollars or accumulated reserves to fund capital purchases;
- Justified on the grounds of keeping the community's debt burden down (thereby preserving future flexibility);
- The City will seek to gradually increase pay-as-you-go as an option for financing capital over time. Factors which favor pay-go financing include:
 - Asset Renewal Projects; (Aspirational goal – Debt only for new projects)
 - Assets with a useful life that is less than 10 years – for example, IT equipment and road maintenance;
 - Situations where additional debt could adversely impact the City's financial health;
 - Situations where market conditions favour the use of cash rather than debt (for example, escalating interest rates).

Recommendation

- It is recommended that:
 - Finance Committee approve the Draft Debt Management Policy as presented by staff;
 - Finance Committee recommend that Common Council approve the Draft Debt Management Policy.

Q & A



FINANCE COMMITTEE REPORT

Report Date	March 08, 2019
Meeting Date	March 13, 2019

His Worship Mayor Darling and Members of Common Council

SUBJECT: Wage Escalation Policy FAS-007

OPEN OR CLOSED SESSION

This matter is to be discussed in open session of Common Council.

AUTHORIZATION

Primary Author	Commissioner/Dept. Head	City Manager
<i>Hilary Nguyen</i>	<i>Kevin Fudge</i>	<i>John Collin</i>

RECOMMENDATION

Be it resolved that:

1. Finance Committee recommends that Common Council approve the Draft City of Saint John Wage Escalation Policy FAS-007.

EXECUTIVE SUMMARY

It is recommended that Common Council approve the Wage Escalation Policy for the City of Saint John. The Wage Escalation Policy is an important component of a Long-Term Financial Plan because it will help address one of the major causes of the City's structural deficit by ensuring that the City spends within its means. The Policy will put the City on a sustainable path going forward.

PREVIOUS RESOLUTION

N/A

STRATEGIC ALIGNMENT

The Wage Escalation Policy is aligned with Council Priorities.

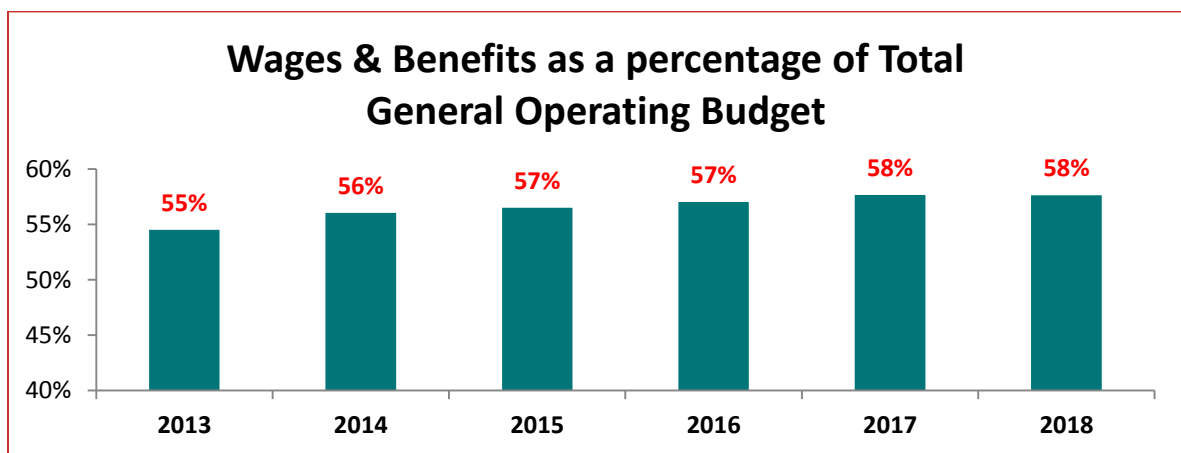
REPORT

The City has a sizable structural deficit and is currently using temporary financial assistance from the Province of New Brunswick in the amount of \$7.1 million in 2019 to fund its operations. The temporary funding will stop at the end of 2020. In addition to the City's operating deficit, the City has a high level of debt and is

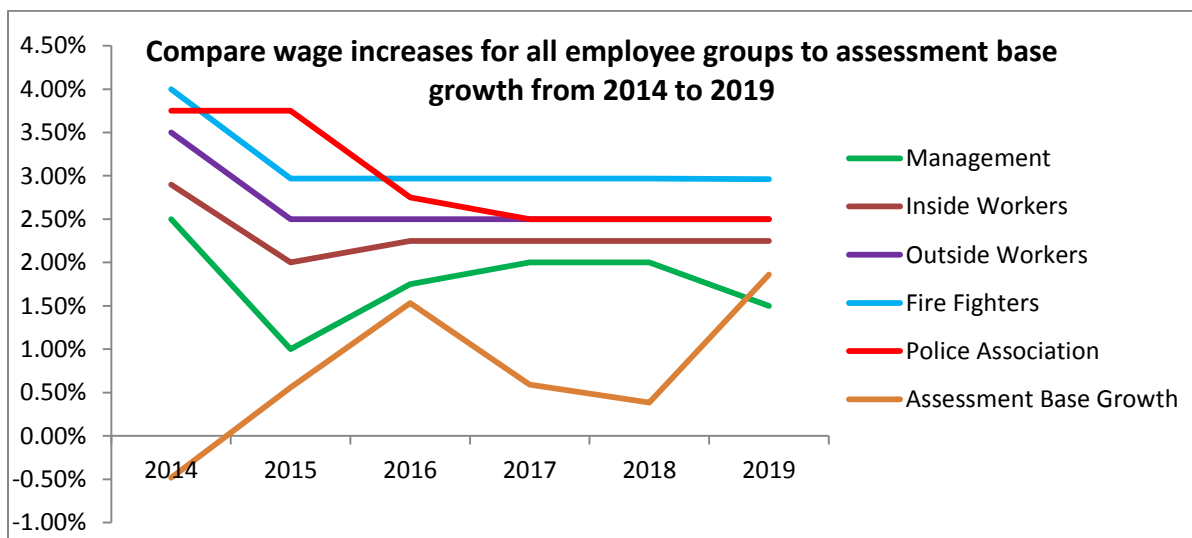
underfunding its infrastructure which will require significant investment in the future in order to deliver reliable services to citizens.

For the first time, the City is developing a Long-Term Financial Plan that will put the City on a sustainable path going forward. To ensure a successful implementation of the Long-Term Financial Plan, key underlying causes of the structural deficit and financial challenges related to debt and infrastructure have to be addressed. One of the causes is expenditure growth outpacing revenue growth.

As seen below, wages and benefits accounted for 58% of the total General Operating Budget in 2018. The percentage has gone up since 2013.



It is projected that if the trend continues, wages and benefits will account for 2/3 of the total Operating Budget in 10 years. From 2014 to 2019, tax revenue has increased \$5.9 million while wages and benefits have gone up by \$8.9 million. The following graph compares wage increases for all employee groups to the assessment base growth for the years 2014 to 2019.



The Wage Escalation Policy is needed to ensure that expenditure growth is aligned with revenue growth.

Objectives of the Wage Escalation Policy:

- The City spends within its means;
- Wage escalation does not cause a tax rate increase;
- Wage escalation does not exceed the City's assessment base growth;
- All employee groups are treated equitably.

Application:

- The City Manager shall recommend wage increases in accordance with the Wage Escalation Policy;
- Recommendations for wage increases shall be based on the previous three year rolling average of Assessment Base Growth;
- In any case, wage increases shall not exceed CPI plus 1% unless supported by a business case and approved by Common Council.

The Three Year Rolling average is recommended due to the following factors:

- The fluctuation in the assessed value of properties for tax purposes will be smoothed out by the rolling average;
- Historical trend can help predict future growth;
- The Three Year Rolling Average is a reliable source of information that can be validated;
- A compensation model based on the Three Year Rolling Average is predictable, affordable and equitable.

Conclusion:

Wage Escalation Policy is the 7th Financial Policy recommended by the Finance Committee. The Suite of Financial Policies will help strengthen governance related to fiscal responsibilities and improve overall financial health of the City. The Wage Escalation Policy is aligned with Council Priorities.

SERVICE AND FINANCIAL OUTCOMES

The Wage Escalation Policy is aligned with Council Priorities and will contribute to the successful implementation of the Long-Term Financial Plan.

INPUT FROM OTHER SERVICE AREAS AND STAKEHOLDERS

[Click here to enter text.](#)

ATTACHMENTS

[List attachments related to report.](#)



SAINT JOHN

Title: Wage Escalation Policy

Subject: Wage increases	Category: Finance and Administrative Services	
Policy No.: FAS-007	M&C Report No.:	
Effective Date:	Next Review Date:	
Area(s) this policy applies to: Cross Corporate	Office Responsible for review of this Policy: Finance and Administrative Services	
Related Instruments: FAS-001 Asset Management Policy FAS-002 Investment Management Policy FAS-003 Reserves Policy FAS-004 Operating Budget Policy FAS-005 Capital Budget Policy FAS-006 Debt Management Policy	Policy Sponsors: Commissioner of Finance and Administrative Services	
	Document Pages: This document consists of 4 pages.	
Revision History:		
<div style="border: 2px solid red; padding: 10px; margin: 20px auto; width: 80%;"><p style="text-align: center;">Common Clerk's Annotation for Official Record</p><p>Date of Passage of Current Framework: _____</p><p>I certify that this Policy was adopted by Common Council as indicated above.</p><div style="display: flex; justify-content: space-between; margin-top: 20px;"><div style="width: 45%; text-align: center;">_____ Common Clerk</div><div style="width: 45%; text-align: center;">_____ Date</div></div></div>		
Date Created:	Common Council Approval Date:	Contact: Finance and Administrative Services



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1. PURPOSE AND CONTEXT

- 1.1. For the first time, the City is developing a long-term financial plan that will put the City on a sustainable path going forward. To be sustainable, the City must find ways to control costs that have been escalating faster than its revenue growth.
- 1.2. In 2019, wages and benefits account for 57% of the total Operating Budget. To be sustainable, wage increases must become better aligned with tax base growth.
- 1.3. From 2014 to 2019, wages & benefits have increased \$8.9 million while tax revenue has increased only \$5.9 million.
- 1.4. Wage escalation policy is needed to provide direction to staff and to ensure that ability to pay is considered in future labor contract negotiations.

2. POLICY STATEMENT

- 2.1. The Wage Escalation Policy is established to ensure that the City is on a sustainable path by aligning expenditure growth with tax base growth.
- 2.2. The Wage Escalation policy objectives are as follows:
 - The City spends within its means;
 - Wage escalation does not cause a tax rate increase;
 - Wage escalation does not exceed the City's assessment base growth;
 - All employee groups are treated equitably.

3. DEFINITIONS

- **Municipal Assessment Base for Tax Purposes** – means the total amount of property values for property tax purposes.
- **Assessment Base Growth** – means the percentage increase in the Municipal Assessment Base for Tax Purposes on an annual basis.

4. PRINCIPLES AND APPLICATION

4.1 Principles:

- 4.1.1 Wage increases must be affordable;
- 4.1.2 Wage increases must not exceed the assessment base growth;
- 4.1.3 Notwithstanding clause 4.1.2, wage increases cannot exceed CPI plus 1% unless it is supported by a business case and approved by Common Council;
- 4.1.4 Bargaining or non-bargaining employees are treated equitably.

4.2 Application:

- 4.2.1 The City Manager shall recommend wage increases in accordance with the Wage Escalation Policy;
- 4.2.2 Recommendations for wage increases shall be based on the previous three year rolling average of Assessment Base Growth;
- 4.2.3 Utilizing a Three Year Rolling Average is a recommended approach due to the following factors:
- The fluctuation in the assessed value of properties for tax purposes will be smoothed out by the rolling average;
 - Historical trend can help predict future growth;
 - The Three Year Rolling Average is a reliable source of information that can be validated;
 - A compensation model based on the Three Year Rolling Average is predictable, affordable and equitable.

Example of a 3-year rolling average of assessment base growth from 2017-2019:

2017	2018	2019	3-Year Rolling Average
0.59%	0.39%	1.86%	0.95%

- 4.2.4 In any case, wage increases shall not exceed CPI plus 1% unless it is supported by a business case and approved by Common Council.

5. ROLES AND RESPONSIBILITIES

5.1 Council shall:

- 5.1.1 Approve the Wage Escalation Policy;
- 5.1.2 Direct staff to use the three-year rolling average of the assessment base growth in future contract negotiations.

5.2 Finance Committee shall:

- 5.2.1 Recommend the Wage Escalation Policy to Common Council for approval;
- 5.2.2 Review any changes to the Wage Escalation Policy in the future.

5.3 The Finance Commissioner shall:

- 5.3.1 Review annually to ensure that wage and benefit increases are in compliance with the Wage Escalation Policy;
- 5.3.2 Update the three-year rolling average of the assessment base growth on an annual basis and make the information available to Human Resources and all employee groups.
- 5.3.3 Recommend any changes to the Wage Escalation policy in the future.



Wage Escalation Policy

City of Saint John

March 2019

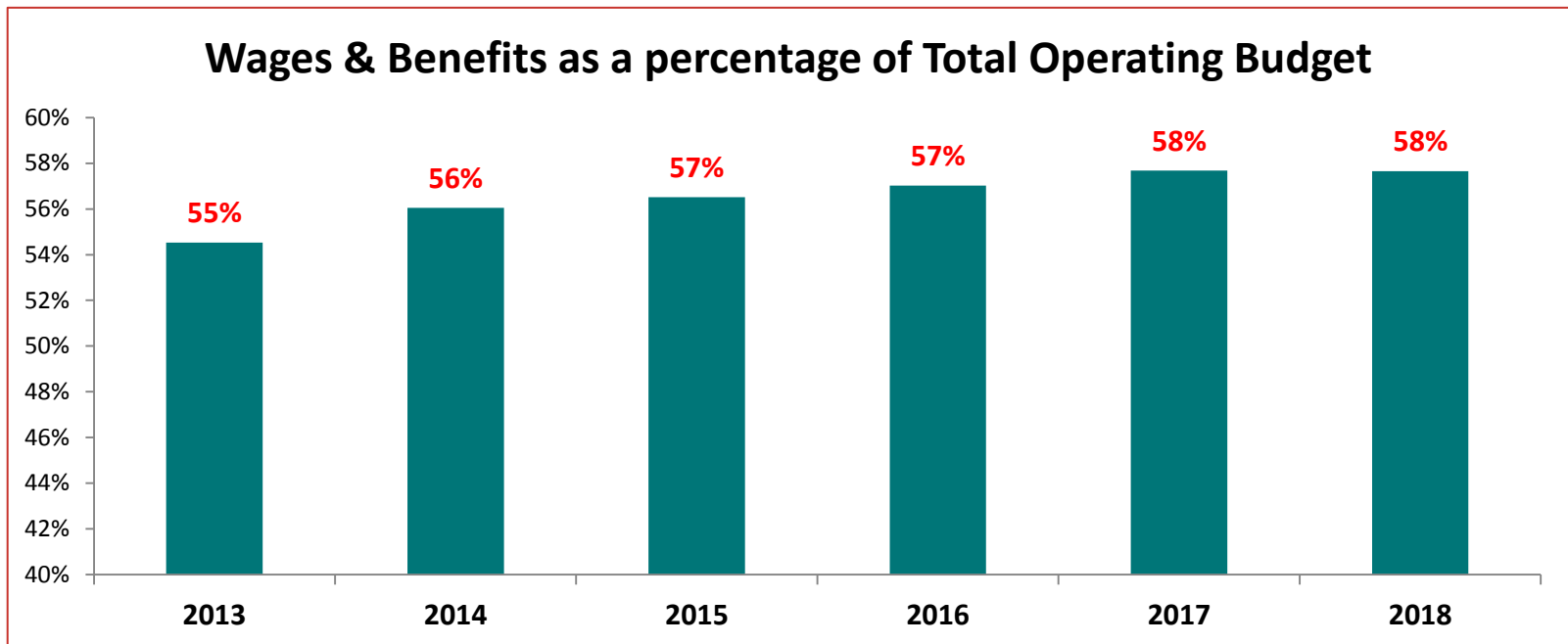


Agenda

- Context: Why do we need a Wage Escalation Policy
- Objectives
- Application
- Recommendation

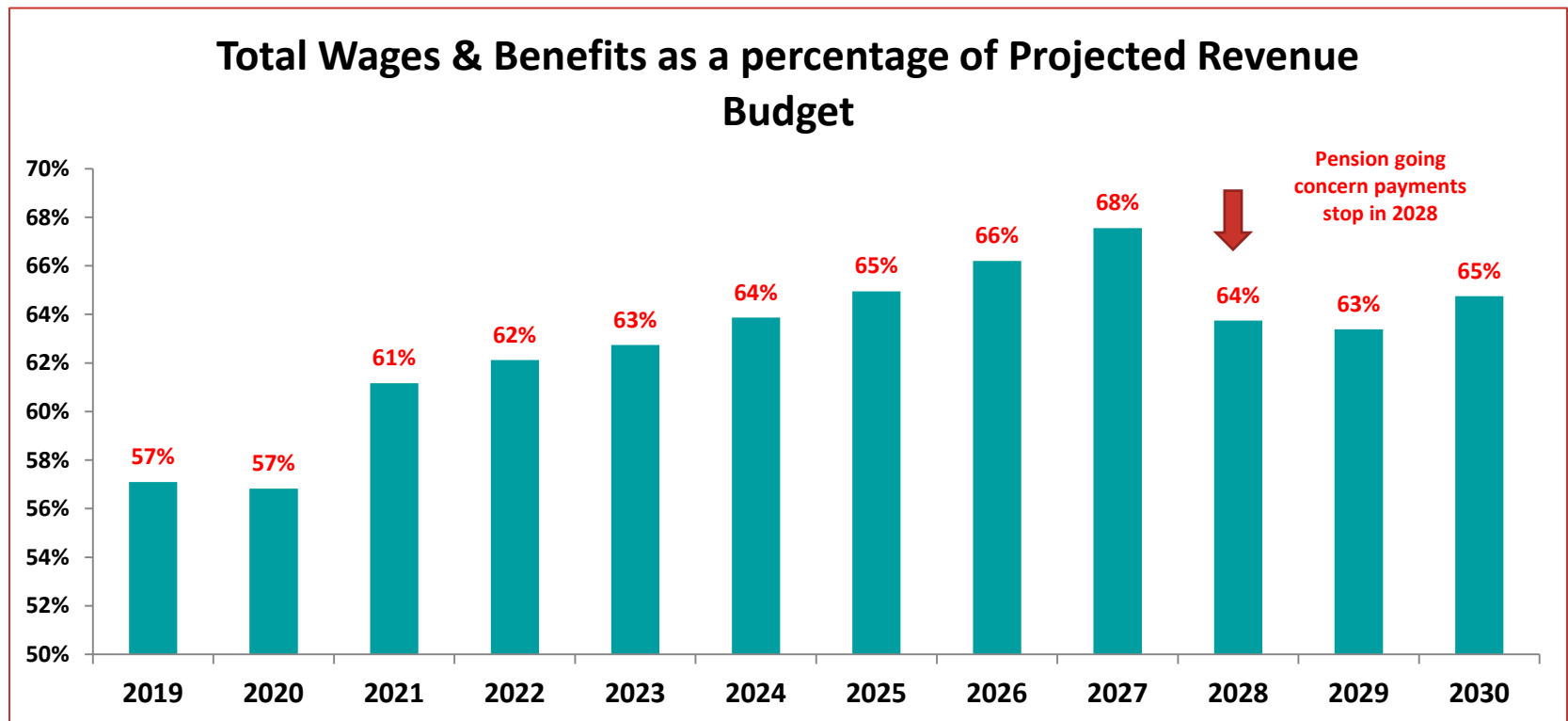
Wages & Benefits as a Percentage of the Total Operating Budget has been increasing

Wages & benefits as a percentage of the Total Operating Budget has been increasing from 55% in 2013 to 58% in 2018.



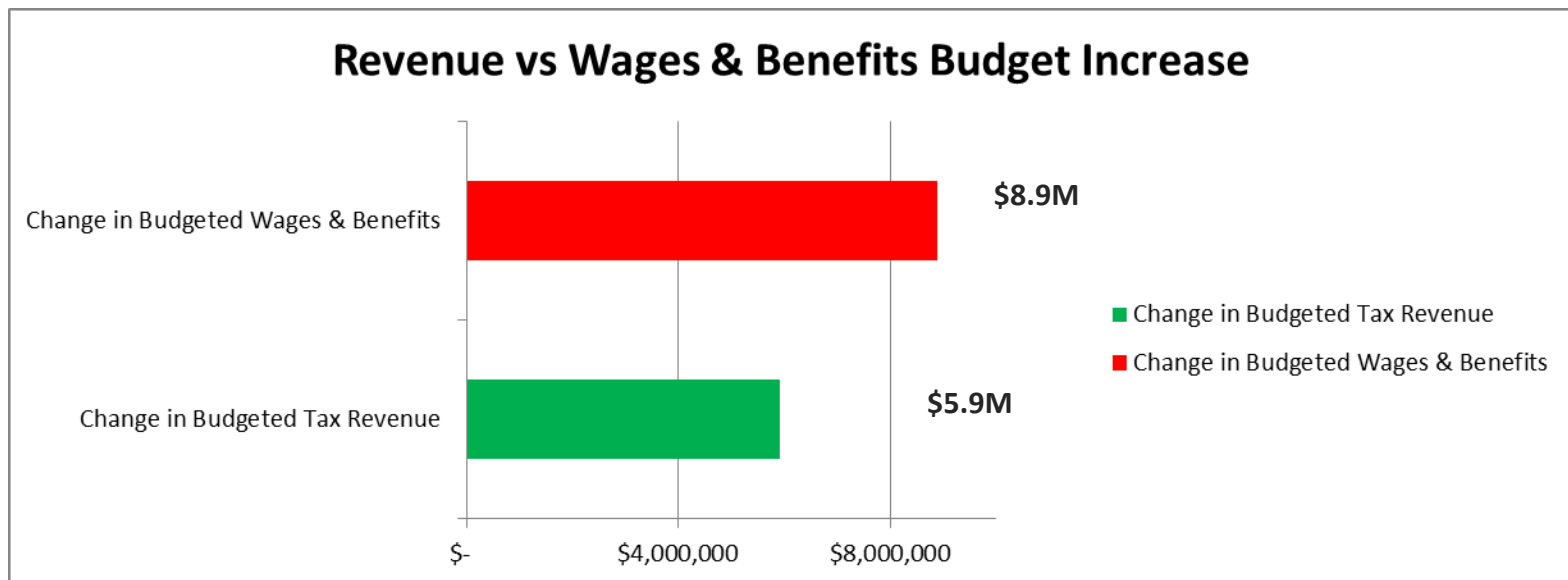
Wages & Benefits are projected to account for 2/3 of the total Revenue Budget in 10 years if the trend continues

If the trend continues, wages & benefits will account for 2/3 of the Projected Revenue Budget in 10 years.

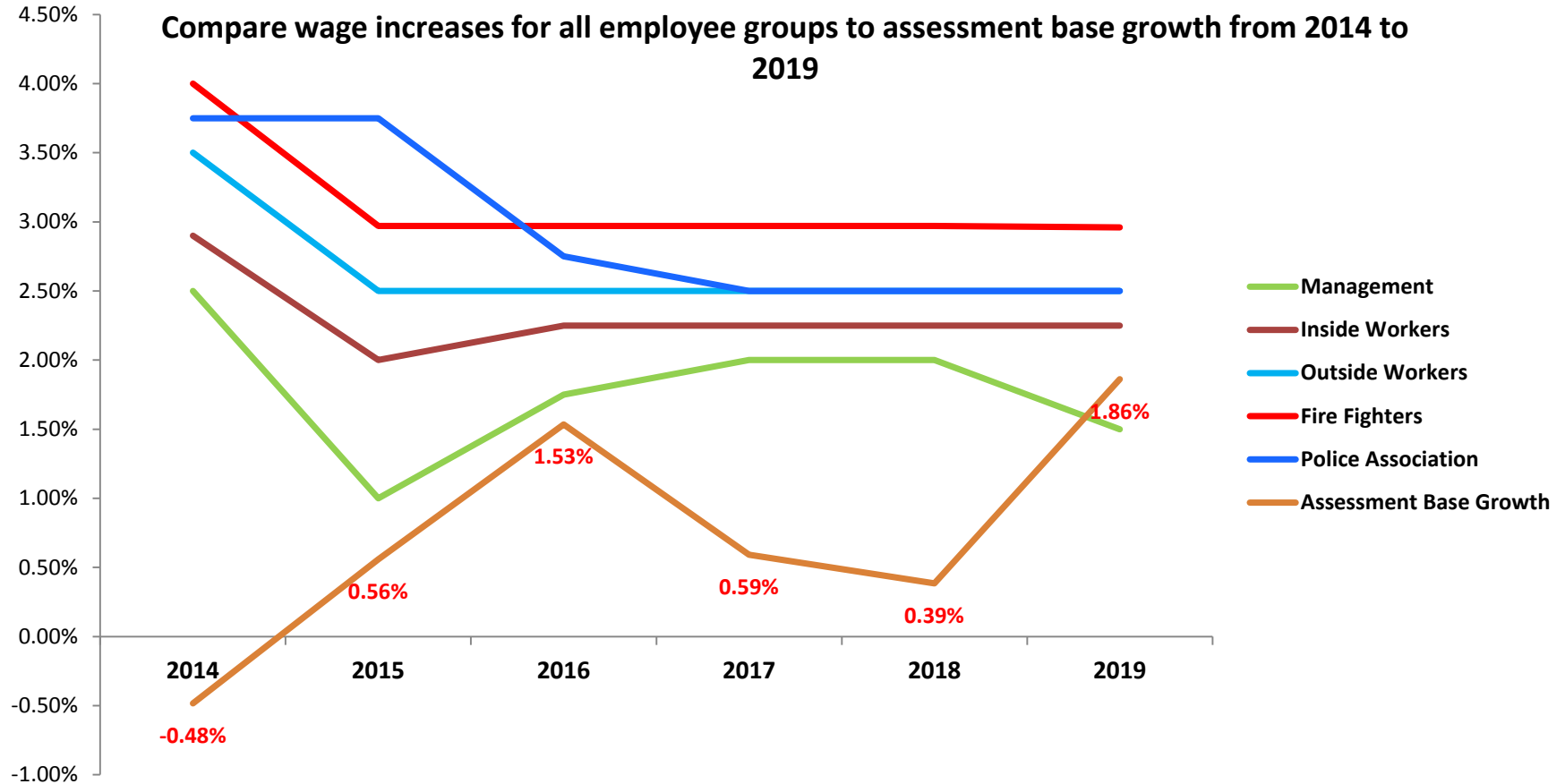


Wages & Benefits (2014 Budget to 2019 Budget)

City's biggest challenge to addressing the Structural Deficit is the escalation of wages and benefits exceeding revenue growth



From 2014 to 2019, Wage increases have outpaced Tax Base Growth



Why Wage Escalation Policy is needed

- The City is developing a long-term financial plan to put the City on a sustainable path going forward;
- To be sustainable, expenditure growth must align with revenue growth;
- Wages and benefits have been escalating faster than revenue growth;
- Wage Escalation Policy is needed to ensure that **Ability to Pay** is considered in future labor contract negotiations as well as all decisions related to personnel costs.

Objectives of the Wage Escalation Policy

- The City spends within its means;
- Wage escalation does not cause a tax rate increase;
- Wage escalation does not exceed the City's assessment base growth;
- All employee groups are treated equitably.

Policy Application

- The City Manager shall recommend wage increases in accordance with the Wage Escalation Policy;
- Recommendations for wage increases shall be based on the **previous three year rolling average of Assessment Base Growth**;
- Utilizing a Three Year Rolling Average is a recommended approach due to the following factors:
 - The fluctuation in the assessed value of properties for tax purposes will be smoothed out by the rolling average;
 - Historical trend can help predict future growth;
 - The Three Year Rolling Average is a reliable source of information that can be validated;
 - A compensation model based on the Three Year Rolling Average is predictable, affordable and equitable.
- In any case, wage increases shall not exceed CPI plus 1% unless it is supported by a business case and approved by Common Council.

Example of a Three Year Rolling Average calculation

Example of Three Year Rolling Average of Assessment Base Growth percentages

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Tax Base Growth	3.26%	-0.48%	0.56%	1.53%	0.59%	0.39%	1.86%	
Three Year Rolling Average				1.11%	0.54%	0.90%	0.84%	0.95%

Recommendation

- It is Recommended that:
 - Finance Committee approves the Draft Wage Escalation Policy;
 - Finance Committee Recommends that Common Council approve the Wage Escalation Policy as presented by Staff;
 - Finance Committee Recommends that a copy of the approved Wage Escalation Policy be sent to Agencies, Boards, and Commissions (ABCs) where the City is the majority funder with a request that those ABCs adopt the same policy.

Q & A





Public Engagement

City of Saint John Long Term Financial Plan



SAINT JOHN

Agenda

About the Long Term Financial Plan (LTFP)

The Budget Simulator: Public Engagement for the LTFP

About the Long Term Financial Plan?

- Best Practice in Financial Governance and Policy;
- Long term Targets to reduce the City's Infrastructure Deficit;
- Long term Targets to reduce the City's Long Term Debt;
- Long term Financial Strategies to eliminate the Structural Deficit;
- Long term planning of tax rates;
- Long Term Capital Investment Planning;
- Financial Monitoring.

Long Term Financial Plan

Initiatives	Target	Deliverables
Public Engagement	Q1/ 2019	<ul style="list-style-type: none"> Obtain community feedback respecting expectations and prioritization of service delivery through the Citizen Survey and online web based tool
10 Year Financial Plan	Q3/ 2019	<ul style="list-style-type: none"> Prepare a 10-Year Operating and Capital Plan
Financial Policies	Q3/ 2019	<ul style="list-style-type: none"> Council approved financial policies that will strengthen the governance respecting fiscal responsibility and influence decision making during the budget planning process;
Financial Health Report Card	Q4/ 2019	<ul style="list-style-type: none"> Annual Report Card on Financial Health (Sustainability, Flexibility, Vulnerability)

Budget Simulator – Public Engagement for the LTFP

- Best Practice in Long Term Financial Planning
- Public input on funding priorities to inform long term strategic direction of the City
- Opportunity to Communicate to the Public:
 - On the Value Taxpayers Receive in City Services
 - On the realities of balancing revenues and expenditures
- We are looking for themes, in terms of what value the community places on various services.

One of many inputs into the development of the Long Term Financial Plan!

Best Practice

Citizen Budget



Budget Allocator



Budget Simulator



How does the Budget Simulator Work?

Challenge: Beginning in 2021, it is expected that the City will face a \$12 million shortfall. The City will undertake, as part of further austerity measures, efforts to reduce this shortfall by \$3 million by the end of 2020, leaving the City with a \$9 million shortfall to address.

- This tool allows users to increase or decrease service area budgets and to see real consequences expressed as changes to service levels.
- We are featuring employees who agreed to be a part of the videos and demonstrate the work they do in the community.

How can the Public find out more?

- Visit saintjohn.ca, Facebook, and Twitter for updates from the City of Saint John
- Tune in to Common Council March 25 for a presentation and official launch of the Budget Simulator via saintjohn.ca
- Tune in to local media
- Email us: SJBudgetSimulator@saintjohn.ca

Next Steps / Timeline





Thank you



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